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Federal Communications Commission
Office of Secretary

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May 6, 1998

Via Hand Delivery

Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Notice of *Ex Parte* Presentation Federal-State
Joint Board on Universal Service, CC Docket
No. 96-45

Dear Ms. Salas:

Pursuant to Section 1.1206 of the Commission's Rules, this is to give notice that a meeting took place today between Irene M. Flannery and Lisa Gelb of the Federal Communications Commission ("Commission"), and Judith L. Harris and Michael J. Francesconi of the law firm of Reed Smith Shaw & McClay LLP ("Reed Smith"). Reed Smith represents the Washington Department of Information Services ("DIS"), a state telecommunications network and provider of telecommunications and advanced services to Washington State schools and libraries.

The purpose of the meeting was to discuss certain cost models associated with the Universal Service funding of schools and libraries. In the course of the discussion, Reed Smith used a collection of graphs to show that the current rules support an inefficient and excessive use of Universal Service funds. This data, in a slightly different format, was originally presented to the Commission in a Petition for Reconsideration of the Fourth Order on Reconsideration submitted by Washington DIS in February 1998. While we did not leave with Ms. Flannery or Ms. Gelb copies of these graphs, we are doing so now, in conjunction with this letter.

In accordance with Section 1.1206(b)(1) of the Commission's rules, we are presenting two copies of the written material to the Secretary.

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Ms. Magalie Roman Salas

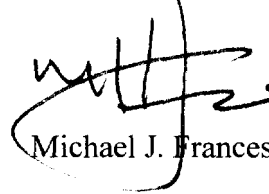
May 6, 1998

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Should there be any questions regarding this matter, please do not hesitate to contact me.

Very truly yours,

REED SMITH SHAW & MCCLAY LLP

A handwritten signature in black ink, appearing to read "M. J. Francesconi", with a large, stylized flourish at the end.

Michael J. Francesconi

Enclosures.

CC: Irene M. Flannery, Esq.
Lisa Gelb, Esq.

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Federal Communications Commission
Office of Secretary

Universal Service Cost Models for Schools and Libraries

Depicting Savings to the Universal Service Fund
Resulting from the Reimbursement Eligibility of
State Telecommunications Networks

Prepared by the Washington State Department of Information Services

Executive Summary

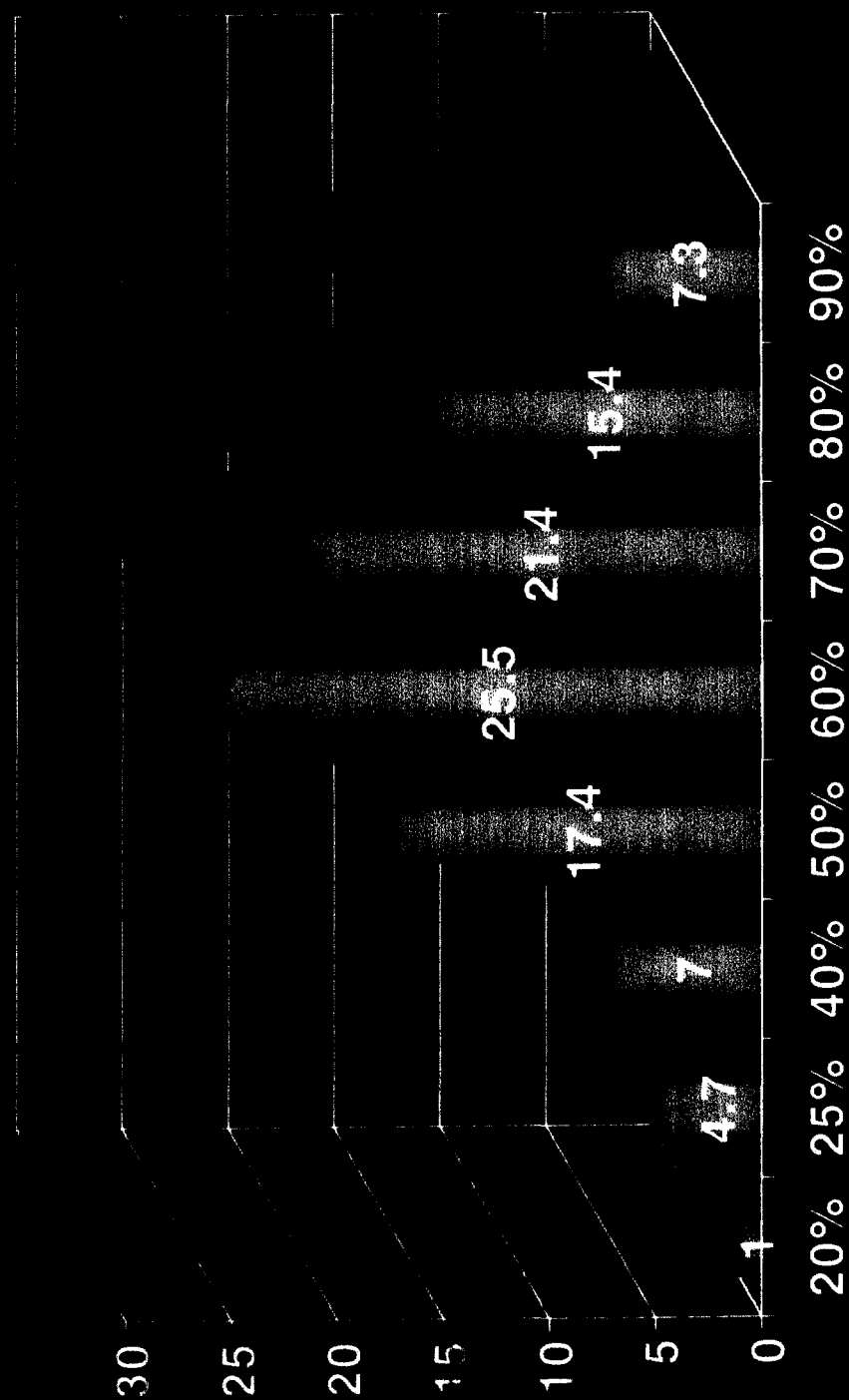
The current Universal Service rules established by the Federal Communications Commission have created incentives for schools and libraries to leave lower-cost, integrated state networks and to purchase higher-priced services directly from telecommunications carriers in order to receive higher discounts. As the cost models indicate, schools will seek to pay the lowest amount possible even if that means purchasing higher cost services, with a resulting inordinate draw on the Universal Service Fund.

An economically rational decision maker at a school or library, with various purchasing options available, will seek that option which results in it paying the least for a particular service, even if the overall cost of that option is higher. This choice forces the other payor (the Universal Service Fund) to pay more than would be necessary with an option that is less expensive overall. From a system perspective, the current rules support an inefficient model which will deplete the Universal Service Fund more quickly than planned.

Enclosed please find a collection of graphs that depict cost models which support our position. At Tab A, we portray the Washington State schools (K-12) as they currently qualify for USF discounts. This graph shows that the majority of Washington State schools qualify for 50% to 80% discounts. At Tabs B and C, please find depictions of cost models for Centrex and long distance services available to Washington Schools under current law and relevant Commission rules and under the relief being requested. The long distance products being compared are identical. The Centrex services being compared are virtually identical--the product available from the depicted state telecommunications network generally has more features than the carrier's product, but still ends up costing less.

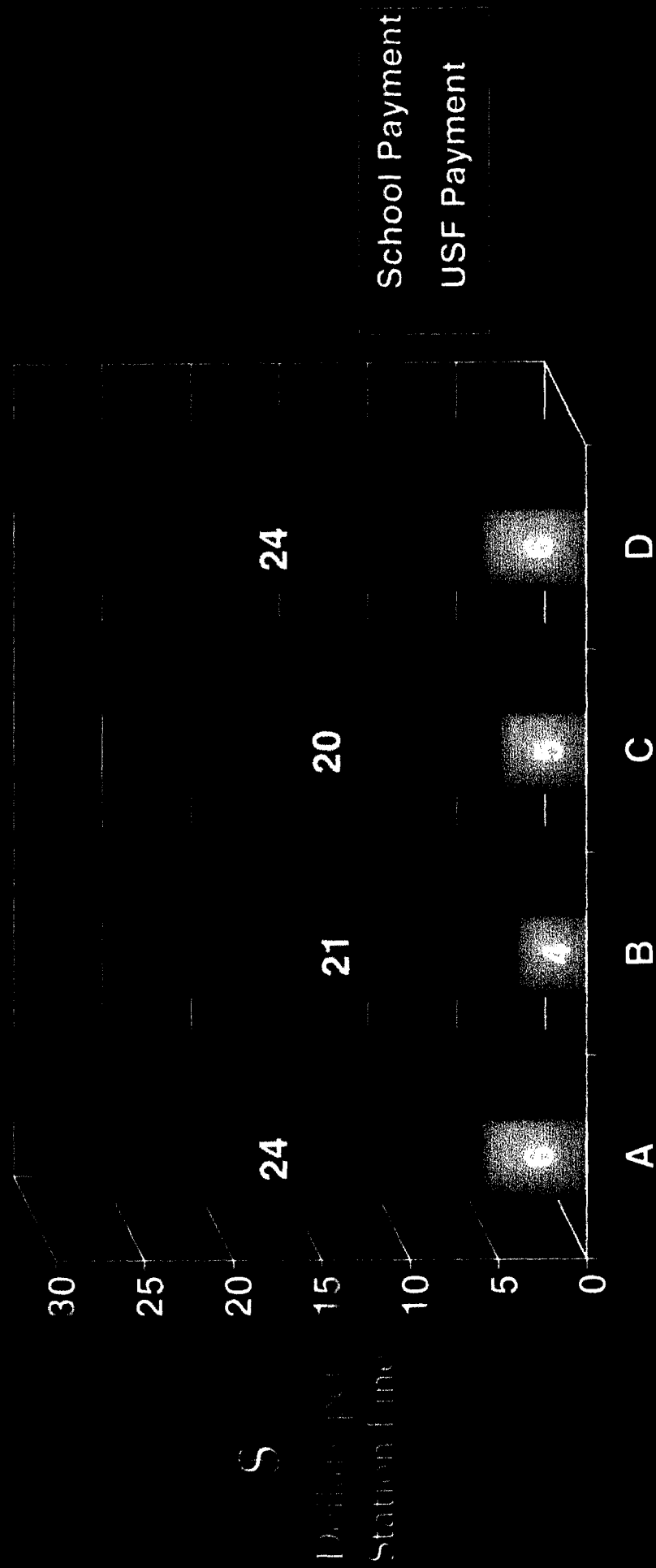
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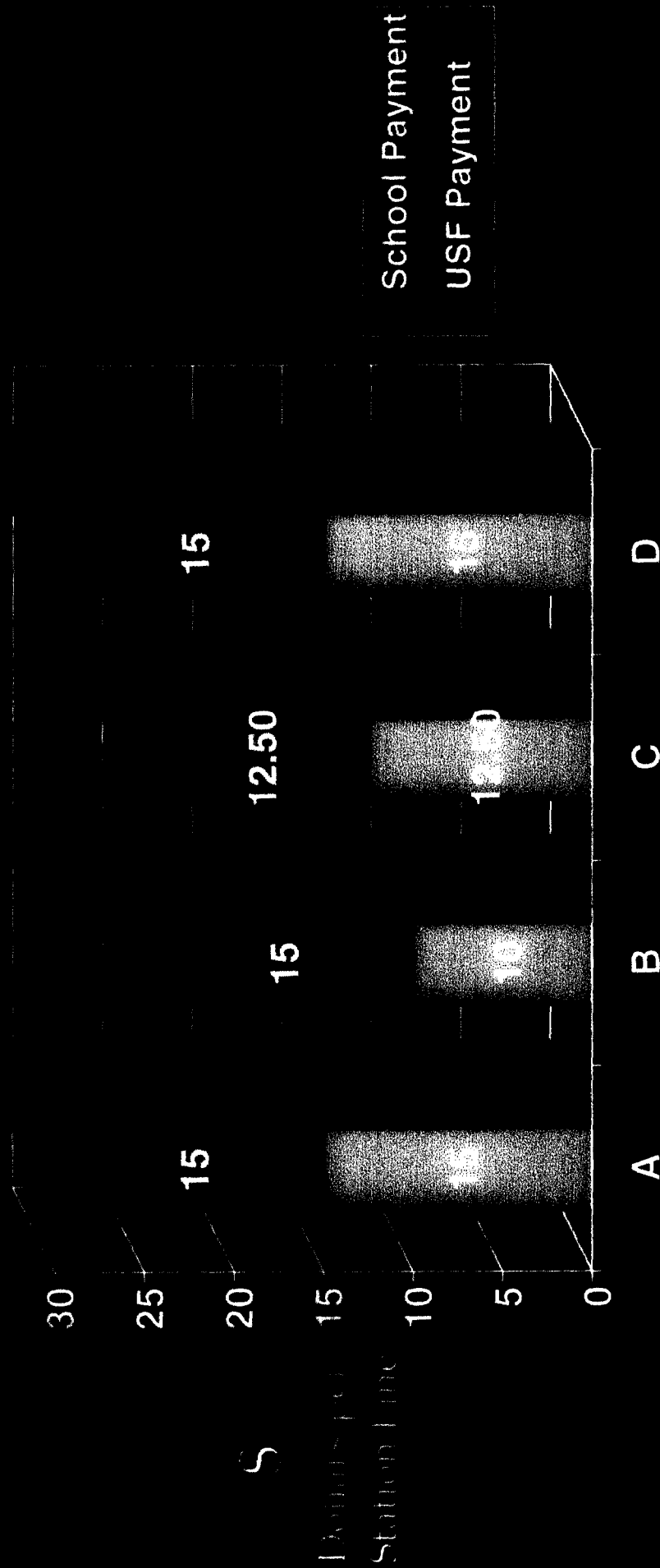


USF Discount Rate

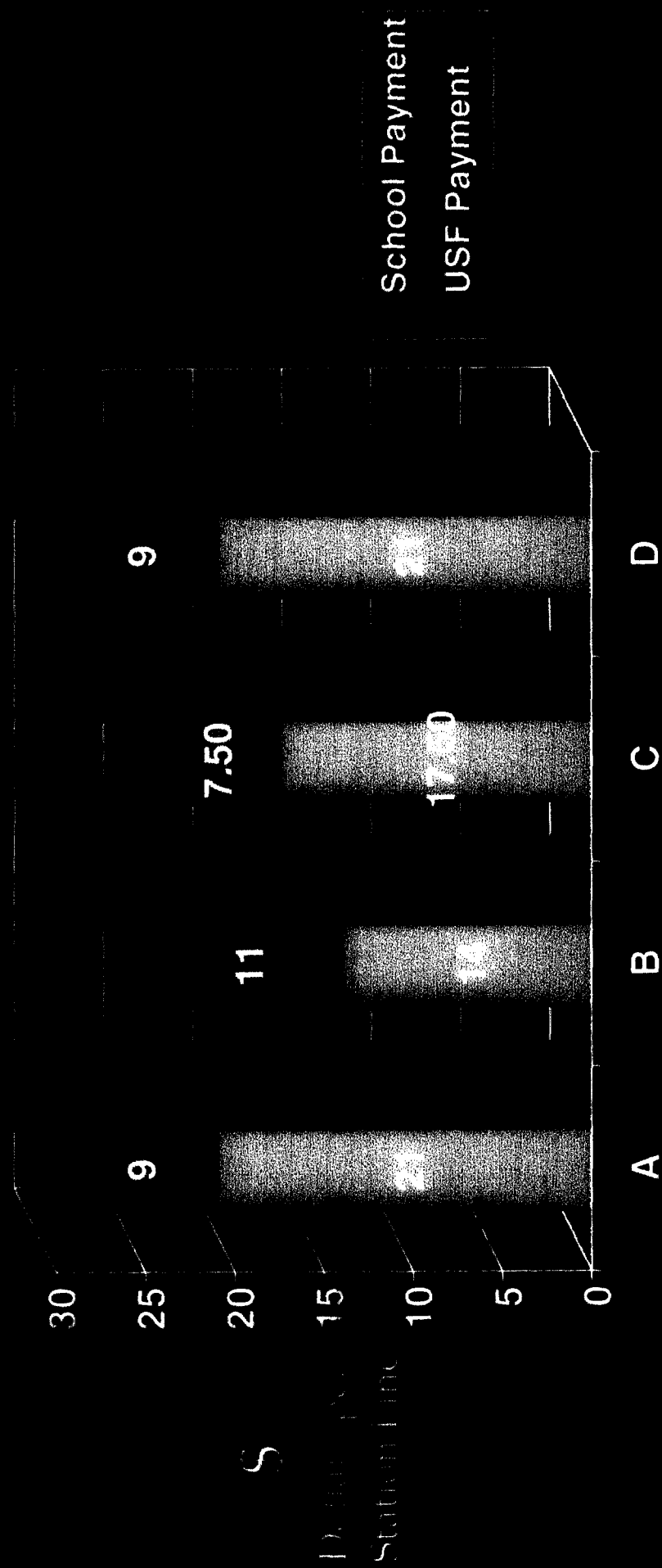
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 International Development
 Research Center



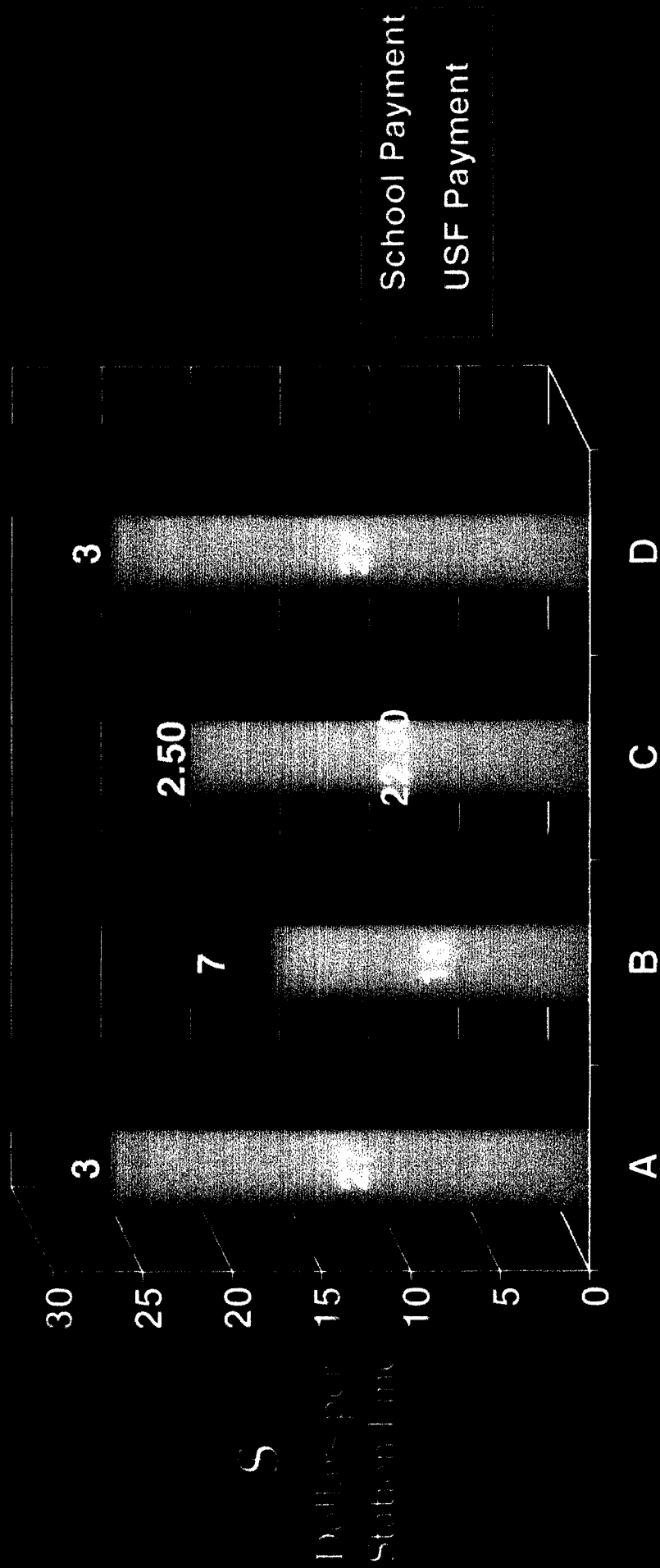
A - Current Rules, Purchase from Carrier C - Proposed Change, Purchase from DIS
 B - Current Rules, Purchase from DIS D - Proposed Change, Purchase from Carrier



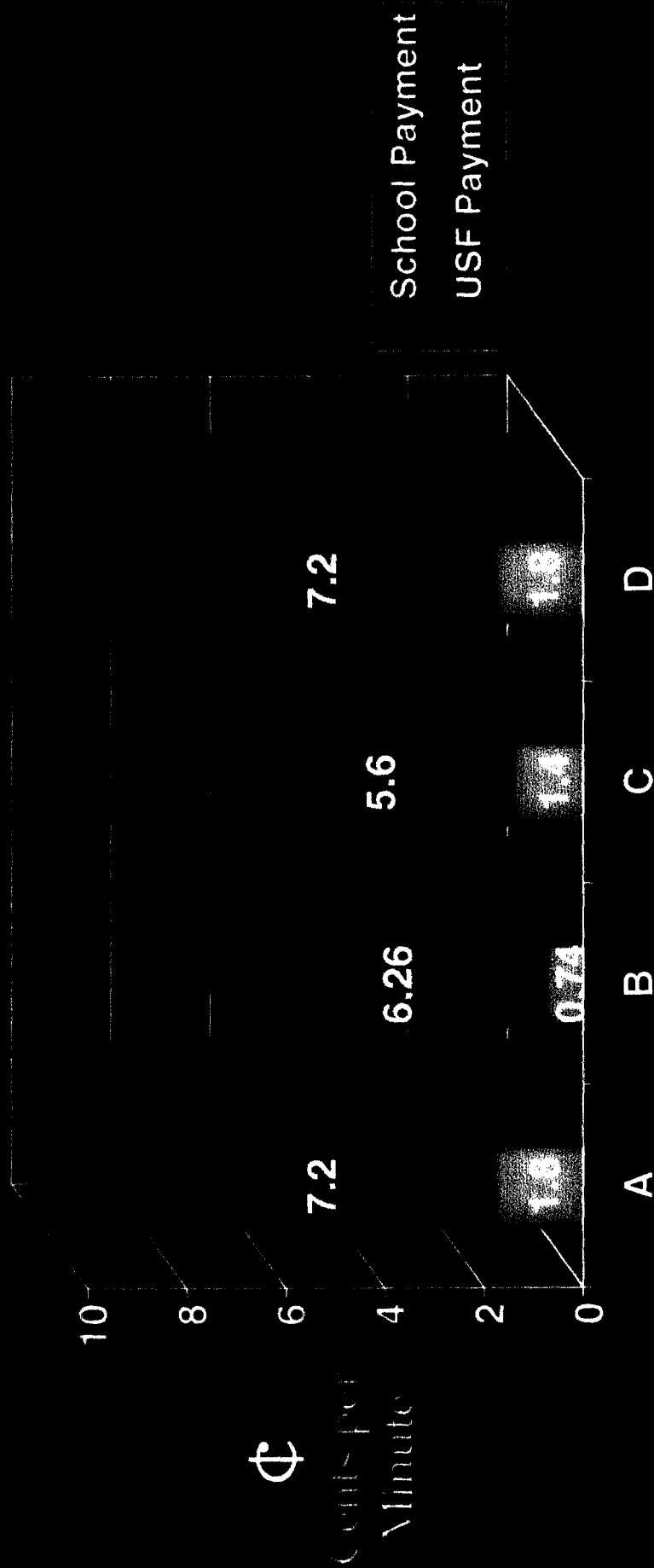
A Current Rule - Purchase from Carrier
 B Current Rule - Purchase from DLS
 C Proposed Change - Purchase from DLS
 D Proposed Change - Purchase from Carrier



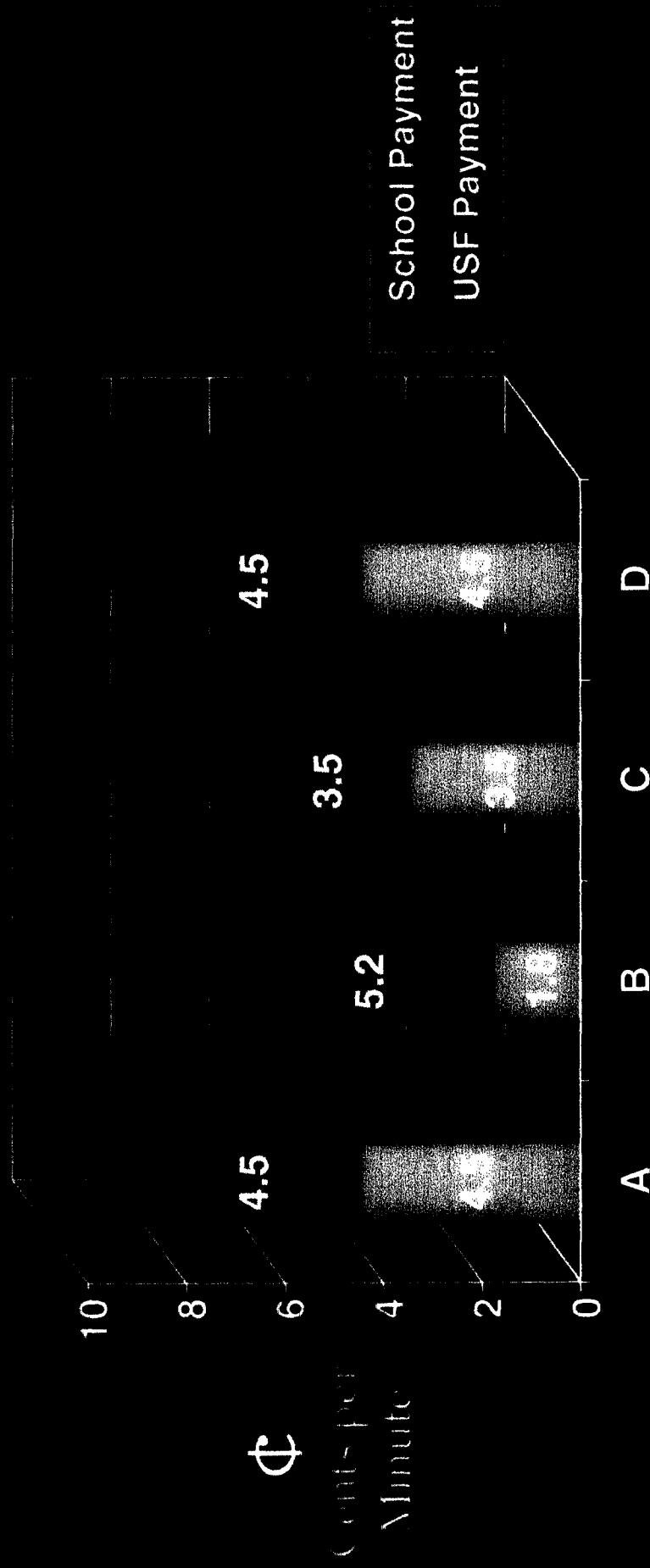
A Current Rules Purchase from Carrier C Proposed Change Purchase from D/S
 B Current Rules Purchase from D/S D Proposed Change Purchase from Carrier



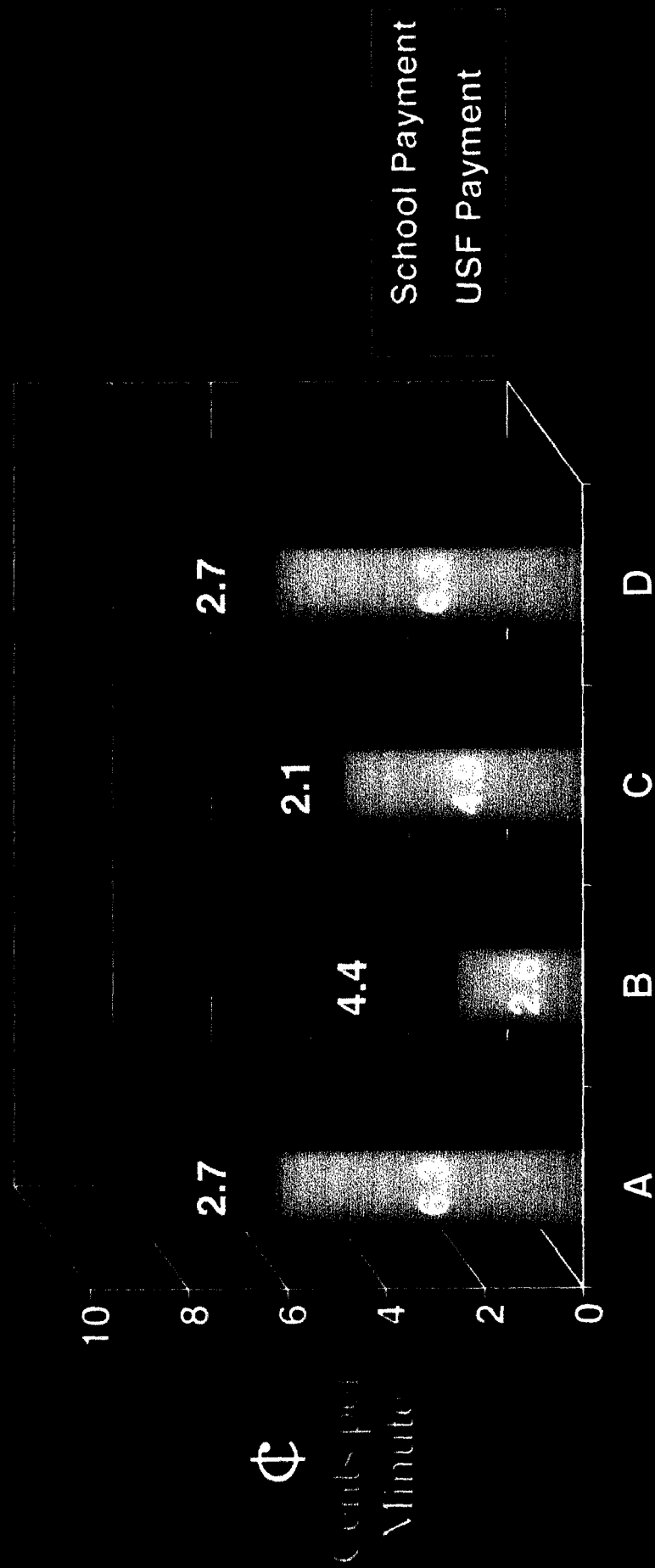
A - Current Rules, Purchase from Carrier C - Proposed Change, Purchase from PBS
 B - Current Rules, Purchase from PBS D - Proposed Change, Purchase from PBS



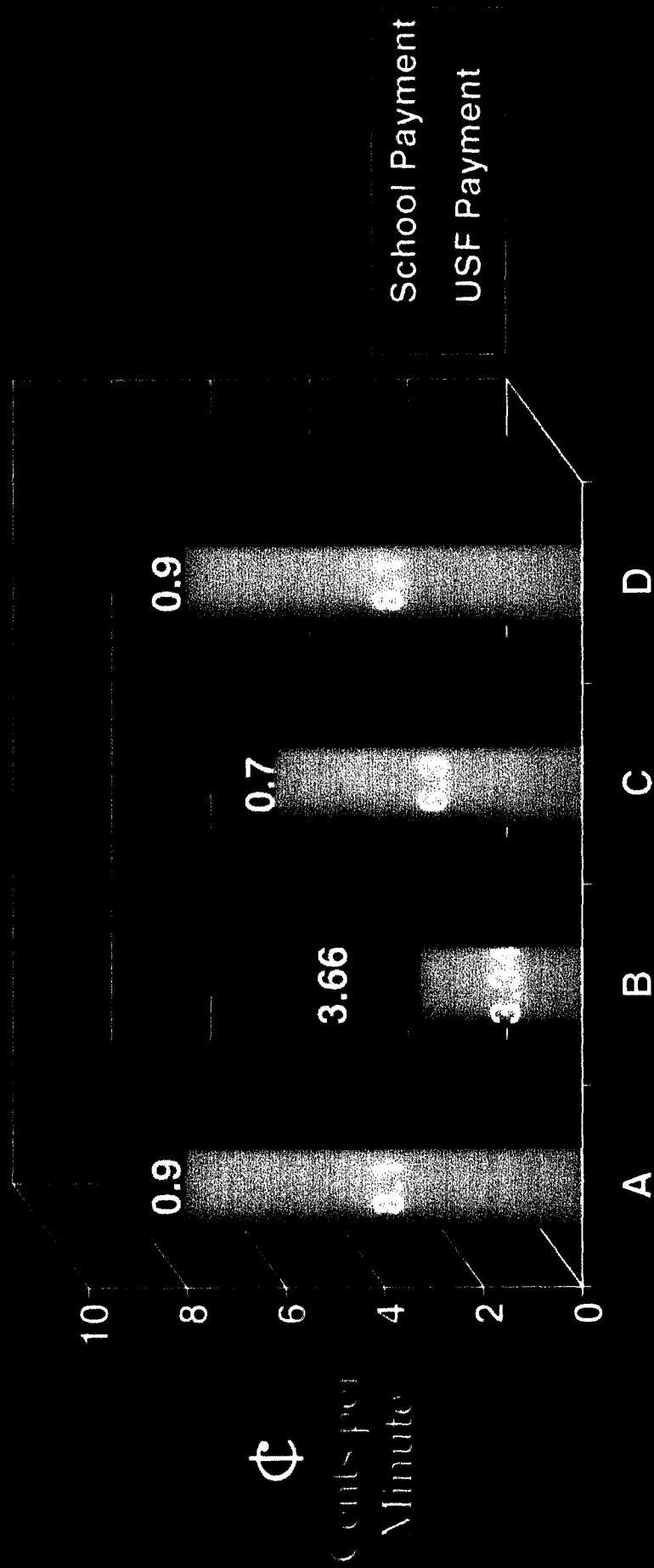
A Current Rules, Purchase from carrier C Proposed Change, Purchase from DPS
 B Current Rules, Purchase from DPS D Proposed Change, Purchase from Carrier



A - Current Rules, Purchase from Carrier C - Proposed Change, Purchase from D/S
 B - Current Rules, Purchase from D/S D - Proposed Change, Purchase from Carrier



A - Current Rules - Purchase from Carrier C - Proposed Change - Purchase from DLS
 B - Current Rules - Purchase from DLS D - Proposed Change - Purchase from Carrier



A - Current Rules - Purchase from Carrier C - Proposed Change - Purchase from DLS
 B - Current Rules - Purchase from DLS D - Proposed Change - Purchase from Carrier